

# THE ENERGY DAILY

Business and Policy Coverage of the Power, Natural Gas, Oil, Nuclear and Renewables Industries

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## Critics: FirstEnergy's RTO Switch Could Harm Customers

BY JEFF BEATTIE

The Midwest Independent Transmission System Operator told FERC last week it would not protest FirstEnergy's plan to shift its Ohio and Pennsylvania power lines out of MISO and into PJM Interconnection LLC—but suggested FirstEnergy's switch was partly aimed at enriching its merchant generation arm and would harm retail customers.

In a September 24 filing, MISO did not challenge FirstEnergy's claims that it would reap financial savings as a result of consolidating all its operations in PJM, which already manages most of FirstEnergy's transmission system in Pennsylvania and its grid assets in New Jersey.

FirstEnergy's July proposal would shift its Ohio Edison, Cleveland Electric Illuminating Co., Toledo Edison, Pennsylvania Power utilities and its wires-only American Transmission System Inc. (ATSI) subsidiary into PJM.

In addition to gaining efficiencies from operating in a

*(Continued on p. 2)*

## Senate Climate Bill Appears To Include 'Soft' Price Collar

BY CHRIS HOLLY

Seeking to revitalize the stalled Senate debate on climate change, Senate Environment and Public Works Committee Chairman Barbara Boxer and Senate Foreign Relations Committee Chairman Barbara Boxer are expected to unveil comprehensive climate change legislation today that draws heavily on a bill approved by the House in June but adds a few important wrinkles, including an apparent "soft" price collar for emissions allowances sold in certain auctions.

Like its House counterpart, sponsored by House Energy and Commerce Committee Chairman Henry Waxman (D-Calif.) and Rep. Edward Markey (D-Mass.), the bill by Boxer (D-Calif.) and Kerry (D-Mass.)—obtained Tuesday by *The Energy Daily*—would cap greenhouse gas emissions from much of the U.S. economy beginning in 2012, cut emissions by 3 percent below a 2005 baseline in that year and establish a market-based emissions trading program intended to minimize compliance costs of utilities and other affected industries.

As reported in the September 17 issue of *The Energy Daily*, the

*(Continued on p. 3)*

## India 'Thinking Big' On New Nuclear—Prime Minister

Indian Prime Minister Manmohan Singh Tuesday

BY GEORGE LOBSENZ

increasing international pressure to commit to in climate change negotiations.

outlined a vast expansion of his country's nuclear power program, saying development of new thorium-fueled reactors could by 2050 generate some 470,000 megawatts of electricity—far more than current global nuclear capacity.

Singh, speaking at a conference on the peaceful use of nuclear energy in New Delhi, said nuclear could provide the electricity India desperately needs while also enabling the country to reduce its reliance on carbon-heavy fossil fuels—something that India is under

The prime minister said India was making strides on a three-phase nuclear development program that ultimately envisions a closed nuclear fuel cycle involving spent fuel reprocessing and advanced heavy water reactors that are fueled by plutonium, uranium-233 and thorium.

"In our country, we see nuclear energy as a vital component of our global energy mix," Singh said. "The vast energy potential of the three-stage program

allows us really to think big.

"If we can manage our program well, our three-stage strategy could yield potentially 470,000 MW of power by the year 2050. This will sharply reduce our dependence on fossil fuels and will be a major contribution to global efforts to combat climate change."

Backers of thorium-based reactors say they are preferable because thorium is less radioactive and more abundant than uranium and cannot be used for nuclear weapons. In addition, they say spent fuel from thorium-based reactors is less radioactive and long-lived than spent fuel from conventional low-enriched uranium reactors used in the rest of the world.

India currently operates 17 nuclear

*(Continued on p. 2)*

## FirstEnergy's RTO Switch Could Harm Customers... (Cont. from p. 1)

single regional transmission organization (RTO), FirstEnergy says moving to PJM better suits its emphasis on retail choice and deregulated markets.

The Public Utility Commission of Ohio (PUCO) also raised concerns about FirstEnergy's plan in a filing last week—saying the utility had shown no benefits to its ratepayers—but the commission did not outright oppose the company's move to PJM either.

However, both the PUCO and MISO generally suggested the Federal Energy Regulatory Commission should consider limiting utilities' ability to switch from one RTO to another based on changing market conditions, saying it can produce planning chaos and hurt customers.

In the case of FirstEnergy's switch, MISO suggested the utility wants partly to cash in on higher power prices in PJM—which covers 13 mid-Atlantic states and the District of Columbia—and rejected the notion that FirstEnergy would gain any efficiency stemming from the way PJM dispatches power.

“Indeed, the only difference between the two commitment processes is that the resultant...energy prices in PJM are higher than those in the Midwest ISO,” MISO said.

“Whereas FirstEnergy may perceive an economic advantage to its stockholders from PJM's commitment process, these economic benefits will not necessarily flow to FirstEnergy's retail customers,” MISO said.

However, FirstEnergy spokeswoman Ellen Raines said Tuesday that was misleading because FirstEnergy's transferred businesses will be in western PJM, where power prices are comparable to MISO and much cheaper than in PJM as a whole.

“You cannot compare [prices in] PJM East with MISO, because that is not where FirstEnergy operates,” Raines said.

MISO also suggested last week that FirstEnergy wanted to reap capacity payments available in PJM but not in MISO—also potentially to the detriment of FirstEnergy's retail customers.

Under capacity markets, electricity distributors pay generators in advance to lock in capacity, assuring adequate supplies and providing incentives to generators to build power plants.

Whereas FirstEnergy claims its customers will benefit from advanced demand response programs in PJM, MISO said “capac-

ity costs are passed through to retail customers and dwarf any offsetting compensation that may be achieved through demand response programs.

“[R]etail customers will bear higher costs for capacity if FirstEnergy moves to PJM while generation owners will enjoy higher revenues.”

However, FirstEnergy's Raines says consumers will benefit both from increased demand response and because PJM's capacity market “provides secure supply at a transparent price...and anything that reduces risk to supplier will be reflected in a more competitive price for energy.”

FirstEnergy says the switch out of MISO also makes sense because it has stronger physical interconnections with PJM.

In a broader suggestion to FERC last week, MISO said that while utilities have the right to try to take advantage of differentiated market conditions, they should not be allowed to switch RTOs purely for those reasons.

“Making relative costs and benefits a relevant consideration for the decision to change RTO membership raises the prospect of forum shopping to take advantage of temporal differences in the market evolution of contiguous RTOs,” MISO said.

“While the result will hardly be chaos, it is equally naïve to think that there will be no consequences that flow from this change in policy,” said MISO.

Much like MISO, the PUCO questioned whether that state's customers would benefit from FirstEnergy's switch to PJM.

“While FirstEnergy points frequently to alleged customers benefits, it neither identifies nor quantifies those benefits,” said the PUCO in a September 23 filing.

Like MISO, the PUCO also suggested that FERC may need to crack down on “RTO-shopping,” or the “casual migration of a utility between RTOs based on economic incentives.

“In the longer term, FERC should initiate a comprehensive rulemaking to develop standards for RTO migration and establish rules limiting companies' ability to change RTOs.”

Pittsburgh-based Duquesne Light Co. was for a period accused of “RTO-shopping” between PJM and MISO.

Duquesne in December aborted a lengthy effort to depart PJM for MISO.

## India 'Thinking Big' On New Nuclear... (Continued from p. 1)

power plants with total installed capacity of 4,120 MW, most of which are pressurized heavy water reactors that generate plutonium to be used in the second phase of India's program. The country is building a prototype fast breeder reactor to move to the second phase, which calls for plutonium-fueled reactors that breed more plutonium as well as uranium-233 from India's ample reserves of thorium.

The final phase of India's program would deploy advanced heavy water reactors that burn uranium-233, plutonium and thorium, with thorium being the main driver of electricity production.

India and many nuclear experts say thorium-based reactor systems will help reduce proliferation concerns about nuclear power because uranium-233 and plutonium-238—which is also

produced—are intensely radioactive, making them hard to work with in weapons programs.

However, some antinuclear groups disagree that the thorium-based system is preferable, noting uranium-233 is weapons-usable and that large-scale plutonium production provides more opportunity for diversion of weapons or dirty bomb materials by terrorists or rogue nations.

India has devoted substantial research and development money to thorium-based reactor systems because for decades it was largely barred from international nuclear trade—especially the purchase of uranium—due to its refusal to sign the Nonproliferation Treaty. India was allowed into the global nuclear marketplace in 2008 with the adoption of the U.S.-India nuclear trade agreement.

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## TVA Taps Former DOE Cleanup Official

The Tennessee Valley Authority announced Monday it has hired Steve McCracken, formerly the top environmental cleanup manager at the Energy Department's Oak Ridge, Tenn., site, to oversee ongoing recovery efforts at the site of the federal power authority's colossal coal ash spill in Kingston, Tenn.

McCracken, who most recently

served as assistant manager for environmental management at DOE's Oak Ridge Operations Office, will be responsible for all aspects of TVA's role in remediating what is possibly the largest coal ash spill in U.S. history.

The spill, which occurred December 22 after a retaining wall at TVA's Kingston plant ruptured and released 5.4 million cubic yards of grey sludge onto

adjacent property and into the nearby Clinch and Emory Rivers, is expected to cost upwards of \$1.2 billion.

Prior to managing the multi-billion dollar nuclear cleanup project at Oak Ridge, McCracken directed cleanup efforts at DOE's former Fernald uranium processing site in Ohio and the department's Weldon Spring nuclear site at St. Charles, Mo.

## Climate Bill Appears To Include 'Soft' Price Collar... (Cont. from p. 1)

Boxer-Kerry bill would tighten the House bill's emissions cap in 2020 from 17 percent below the 2005 baseline to 20 percent below 2005 levels. And at the request of environmental groups, the Senate bill does not include language in the House bill prohibiting the Environmental Protection Agency from regulating carbon dioxide (CO2) under the Clean Air Act's New Source Review and New Source Performance Standard provisions.

Significantly, the bill does not specify the amount of free allocations utilities and other industries would get in the initial years of the bill's cap-and-trade program. The House bill in the early years would give allowances free of charge to electric and gas utilities, energy-intensive and trade-exposed industries, refiners, and other affected industries. It is widely expected that Boxer and Kerry will include allocations in a "manager's amendment" to be used as the vehicle for amendments when the environment panel marks up the bill in mid- to late October.

The Senate bill appears to have a modified version of an allowance price collar, a cost-containment mechanism backed by utilities and other affected industries to ensure the bill's cap-and-trade program does not harm consumers or the overall economy.

Although the language of the legislation is somewhat confusing, it appears that it would establish a minimum price of \$10 for allowances sold at quarterly auctions to supply utilities and other affected sources with the allowances they would need—beyond the likely free allocations in the initial years of the program—to comply with the annual emissions caps.

When the presumed free allocations phase out, industry would have to purchase all of their allowances or emission offsets to comply with the emission caps. Proceeds from these auctions would be used to fund a variety of climate-related public benefits programs, and the minimum \$10 price would ensure sufficient revenues to fund the government programs.

However, the Senate bill also would establish a separate auction of allowances drawn from future years and placed in a strategic reserve for sale if market prices for allowances exceeded a specified level of \$28 in 2012. This starting price would increase annually by 5 percent plus inflation through 2017. Beginning in 2018, the strategic reserve auction minimum price would be 7 percent plus inflation higher than the previous year's price.

The House bill called for increasing the initial minimum price of \$28 by 5 percent plus inflation per year for two years, and thereafter by an amount 60 percent higher than a three-year rolling average market price.

These two auctions, with their corresponding threshold prices, apparently constitute a price collar, although the term up to now has been described as having a minimum and maximum

price and applying only to the reserve auction. Sources said Tuesday committee aides now are referring to this mechanism as a "soft" collar.

Boxer and Kerry also opted to increase the initial size of the strategic reserve and to allow it to be refilled with domestic and international emissions offsets. By comparison, Waxman-Markey authorized EPA to use auction proceeds to purchase offsets created by international actions to prevent deforestation and forest degradation to replenish the reserve.

While the House bill would limit the size of the reserve to 5 percent of the total allowances issued in a given year, the Boxer-Kerry legislation would establish the reserve at 15 percent of the total allowance pool for years 2012-2016. For year 2017 and thereafter, the reserve would be set at 25 percent of the total pool for each year.

Although some utilities already are grumbling that the initial \$28 strategic reserve auction price is too high, the increased amount of allowances they could purchase likely would prevent market prices from soaring to exorbitant levels. However, because these allowances would be borrowed from future years, compliance in the later years of the program likely would be far more expensive than if the size of the reserve were smaller.

This, in turn, would increase political pressure on the government to issue more allowances in the later years of the program, violating the environmental integrity of the program and threatening the fundamental goal of the legislation to reduce U.S. emissions by 83 percent below the baseline by 2050.

Environmentalists and industry sources cautioned Tuesday that the bill will undergo wholesale changes before it reaches the Senate floor, and will be further modified—likely extensively so—during the floor debate.

In addition, other committees, notably the Senate Agriculture and Finance committees, likely will put their stamp on the bill, making substantial changes to the legislation's offsets and international competitiveness provisions, respectively.

According to a variety of sources on and off Capitol Hill, Boxer and Kerry remain 15 to 22 votes shy of the 60 they would need to overcome an almost certain filibuster by Republicans when the bill arrives at the Senate floor.

Key Democratic senators who continue to withhold their support are motivated by concerns about the bill's impact on the economy, on manufacturing and employment in their states, and for senators facing re-election in 2010, the possibility of a voter backlash against the prospect of higher energy costs just years after the nation has recovered from a damaging economic recession.

# Cap and Trade Allowances: Windfalls Or Wind Farms?

## COMMENTARY

BY GREGORY E. ABEL  
AND GLENN ENGLISH

The commentary No ‘Cash for Clunkers’ in Climate Bill (in the September 15 issue of *The Energy Daily*) creates a fictitious history of climate change and seriously harms good faith efforts within the industry to address the legitimate issues many utilities have raised with the Waxman-Markey bill.

Let’s be perfectly clear: the utilities calling for changes to Waxman-Markey support emissions reductions. The simple fact is that the switch to low- and zero-emission technologies won’t happen overnight, and it won’t be cheap. The problem is exacerbated by Waxman-Markey’s allowance allocation formula, which rewards companies with fewer CO<sub>2</sub> emissions and leaves more coal-dependent utilities with significant allowance shortfalls. Our aim is to prevent a double cost to our customers: the cost of allowances (which will do nothing to reduce emissions), and the cost of the new infrastructure, including the renewable energy needed to actually reduce emissions.

We will not support the passage of legislation that causes our customers to spend their hard-earned dollars on unfair allowance allocation formulas that send millions of dollars to those who do not need them to address climate change. Moreover, the Edison Electric Institute made clear in letters to Senate leadership that they cannot support the bill without having a number of key changes made to it.

We and other utilities—both large and small—have raised questions about the bill’s allocation formula, which is split 50-50 between emissions and retail sales. Why? Because free allocations based on retail sales will create a financial windfall for companies with large nuclear or hydro resources. Those resources don’t emit greenhouse gases, so they don’t need allowances to comply with the law.

Moreover, giving away windfall allowances through an inequitable allocation formula reduces the available allowances for utilities that do need them to be in compliance with the law. This drives up customers’ costs and inappropriately transfers wealth from customers of primarily coal-based utilities to those of utilities that are less carbon-intensive.

This situation was avoided under the successful acid rain program, which did not distribute sulfur dioxide allowances to nuclear and hydro units—for the simple and obvious reason that these units did not emit sulfur dioxide, had no compliance obligations and, therefore, did not need allowances.

Let’s set the record straight: no nuclear plant was built to save the planet, and no coal plant was constructed to melt the ice caps. Utilities that built nuclear plants in the 1960s and 1970s did not do so to avoid greenhouse gas emissions, and there is no reason to provide them with a financial windfall.

And as far as these self-declared “forward-looking power companies” are concerned, not one of the “Cash for Clunkers” authors has built a nuclear plant during their tenure with their utility.

Furthermore, so-called clunker coal plants in the Midwest were authorized by state utility commissions pursuant to laws existing at the time of approval. These plants were found to be in the best interests of our customers at that time, and they should not be penalized now for past prudent decisions that have resulted in low-cost electricity.

The authors assert that in the states where their customers live, a typical

monthly electric bill averages \$106, while in coal-burning parts of the country it is as low as \$65. What’s the solution for their higher cost structure? Use the Waxman-Markey bill to moderate their customers’ bills. How? By raising our customers’ bills!

Let’s not rewrite history and pretend that the utility investments in low- and non-emitting power generation three and four decades ago anticipated climate change and should therefore be rewarded. A climate change bill should not pick winners and losers—and Waxman-Markey would do just that.

It’s difficult to swallow the argument about industry compromise when one of the companies represented in the “Cash for Clunkers” commentary will add about \$750 million to its annual revenues for every \$10 per metric ton increase in the price of carbon dioxide allowances under the bill.

Rather, let’s develop a fair allocation formula that avoids windfall profits, provides allowances to utilities that will be forced to take major actions to reduce their emissions, rewards early action once the program starts, avoids wealth transfers between utilities—and most importantly—actually ensures investment to reduce greenhouse gas emissions.

—*Gregory E. Abel is president and CEO of MidAmerican Energy Holdings Company, whose utilities serve more than 3 million retail electric and gas customers in 10 states. Glenn English is CEO of the National Rural Electric Cooperative Association. NRECA represents the nation’s consumer-owned electric cooperatives, which provide electric service to more than 42 million people in 47 states. The combined organizations serve greater than 13 percent of the United States electric market.*

## Areva Picks Three T&D Bidders

French nuclear giant Areva said Tuesday it has selected three potential buyers for its transmission and distributions business, and will move into a “second phase” to allow the suitors to improve and finalize their offers.

Areva did not name the three preferred bidders, but *Reuters* reported

Tuesday that they are General Electric, Toshiba and a partnership of French firms Schneider Electric and Alstom. An Areva spokesman declined to confirm that report Tuesday.

The company said it picked the three bidders to “move on to the second phase of the...sale process, during

which the offers will be further detailed, improved and finalized.”

Importantly, Areva has not firmly committed to selling off its booming transmission and distribution (T&D) unit, which is being pushed by Areva’s supervisory board—which is controlled by the French government—but resisted by Areva’s management team.